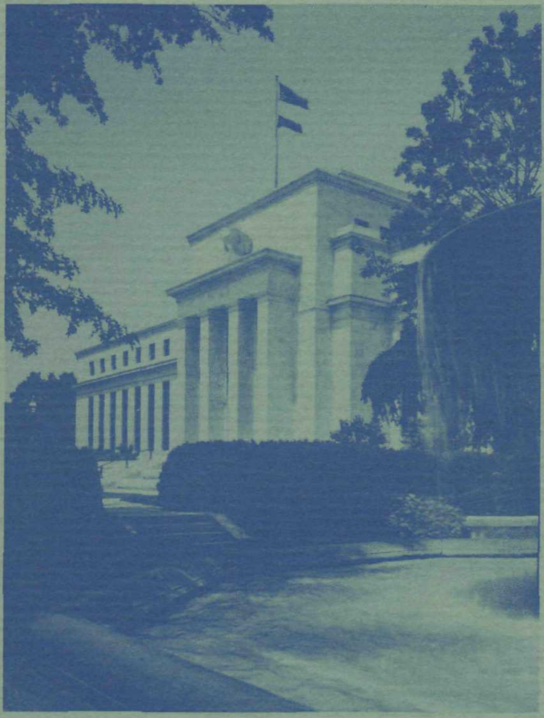
WORKING AT THE BOARD

1930s–1970s



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WORKING AT THE BOARD

1930s–1970s

Presented to the

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

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We wish to dedicate this volume
to

MERRITT SHERMAN

a friend and mentor to many
of the Members of the Board
and its staff.

In his years of dedicated service
at the Board,
and his subsequent leadership
in Board retiree activities,
Merritt epitomized
much of what was best
in the Board staff.

Merritt joined the Division of Analysis and Research at the Federal Reserve Bank of San Francisco in September 1926; served as department manager from 1930 to 1941; and was an operating officer in various functions of the Bank from 1941 until October 1946, when he came to the Board of Governors as Assistant Secretary. He was Secretary of the Board from 1958 to 1968, and retired as Assistant to the Board in 1969. For many years thereafter he was a consultant to the Board.

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We want to thank especially all the above-listed contributors who gave their time and effort to this endeavor to capture a special dimension of Board history.

Eleanor J. Stockwell
Editor

Robert C. Holland
Publisher

Introduction and Overview

The Federal Reserve Board is an outstanding public institution, the center of a complex central banking system that on balance has served this nation well for three-quarters of a century.

One important reason for its success has been the quality of the individuals who have been drawn to serve on its Board and on its staff. As is proper in official documents, relatively little is said of the personal side of the Board in the published minutes of meetings, statements of policy, economic analyses, and annual reports. However, some sense of the evolving personality of the Board and its staff, and of their spirit, challenges, and contributions deserves to be preserved as a part of the Federal Reserve history.

Accordingly, the retired officers of the Board, drawing upon their personal recollections, contacts, and readings, have authored this informal summary of what it was like to be "Working at the Board." They present it as a mark of respect for the institution that they have served.

Each of the essays that follow was drafted by a retired officer and is based mainly upon his or her recollections of what it was like to be part of the Board family during a particular decade, plus the comments and suggestions of colleagues. The years prior to the 1930s, as well as the decade of the 1980s, are not covered separately because the retired officers as a group are too young to do justice to the early years and too old to have a good feel for employee attitudes in the 1980s. A full list of all drafters and commentators is included following the table of contents.

Some changes that have affected the Board's work environment over the five decades occurred either gradually or off and on, and are difficult to handle meaningfully on a decade-by-decade basis. A major change has been the multiple increase in the Board staff, from three divisions and forty-five employees in its first year to eight divisions and 378 employees in its twenty-fifth and nineteen divisions and more than 1,500 employees in its seventy-fifth. As is clear in several of the essays, growth in the Board's staff reflected the increased responsibilities entrusted to the Board by the Congress. But it also reflected the increased complexity of the economic and financial environment in which the Board operates and the increasingly sophisticated tools required to monitor and influence that environment. What did this mean for working relationships and the good fellowship within the staff that old-timers like to recall?

In the earliest decades, it should be noted, the Board's staff was housed in small groups in several government and private buildings and had only limited interdivision contact, at least at the staff level. It was not until 1937 that we all moved into our own building, and began using the same elevators, eating in the same cafeteria, and seeing what the Board Members looked like. We rattled around a bit in the beginning: Floor plans included in the program for the official opening of the new building show large areas unassigned or allocated to "storage;" and the telephone directory remained a thin book despite its listing of employees, until after World War II, both alphabetically and separately by division. The latter was a great help in identifying one another.

It is easy to remember working at the Board—when we were still relatively few in number and fit comfortably into one building—as being part of a warm and congenial family; to a considerable extent this is probably an accurate assessment, more so within some divisions than across divisions.

But all was not sweetness and light in those days. The Employees Committee, born in the early 1940s, ended its first year by sending the Board's Personnel Committee a letter listing seven of "the factors that have contributed to employee dissatisfaction" (for example, "secrecy and ineffectiveness of the so-called classification system" and "lack of a uniform and systematic promotion plan"); and by the late 1940s the president of the Reserve Board Club, in his annual report, was nostalgically deploring the near-disappearance of the former great interest of the staff in the club's activities ("Are we growing older and lazier and more self-satisfied, or has the cold formality of our marble halls impressed itself upon our personalities?").

In time the Board outgrew its single building, and the staff again was scattered, with various units or entire divisions housed off the Board premises—primarily at the FDIC in the mid-1960s and at the Watergate from the late 1960s through most of the 1970s—until completion of the Martin Building and the Board (now Eccles) Building's renovation.

Over the decades covered here, the composition of the Board's staff also has changed drastically. For at least the first third of the Board's existence, the professional staff was exclusively white and male (as was true for much of Washington). Black women were not hired for even the lowest-paying positions, black men (even with college degrees) were hired only as messengers, and white women (again, even those with college degrees) were hired only as secretaries and statistical clerks; for the last group, however, early promotion to a higher-grade position was possible.

As time went on, however, the Board, while maintaining its high standards for the qualities that matter, enlarged the employment opportunities for women and other minorities.

A third major change that developed over several decades has been in the way data and other information are assembled, worked on, stored, and updated. For a large part of the Board's history, these tasks were handled with what today many would consider very primitive tools: the desk calculator that was used for all data manipulation and ground out the results of simple operations; the manual typewriter that provided final copy only after uncounted retypings of successive drafts; the fourteen-column card that preserved statistical data (entered and updated by hand) and was stored in a clerk's private file case; the nonstatistical records usually kept on pieces of paper in someone's desk drawer.

Nevertheless, a relatively large force of statistical clerks and other recordkeepers turned out a lot of work with these tools, though it did not need to be, and was not, the complex and sophisticated output demanded in recent years. With the gradual shift through semiautomatic equipment to higher and higher levels of technology, employee skills have needed to be upgraded as well, and employment qualifications have risen.

All these changes chronicled in this and the other chapters of this volume inevitably produced changes in what it was like to be working at the Board. The staff became much larger and less homogeneous, and its duties became more demanding and more visible. But an indicative thread seems to run through the recollections of all the retired officers who contributed to this volume, whether they served in the thirties, the forties, the fifties, the sixties or the seventies: they were proud to have spent time working at the Board. ■

IN THE 1930s

The 1930s was a traumatic decade for most Americans. The aftermath of the 1929 stock market crash, the Great Depression, the drought and dust storms (for some, the New Deal), and the rising dictatorships in several major countries—all of these created stresses and forced many changes in what many Americans did and how they thought.

As individuals, the employees of the Federal Reserve Board felt these stresses also, although their paying jobs saved them from the hardships that unemployment imposed on many other Americans. Professionally, however, the actual work at the Board in the years 1930–32 was affected less than might have been expected by the momentous events developing outside its walls. There was a sense that the Federal Reserve had neither the powers nor the responsibilities to counter the depressing trends in the economy. The Board's regular business proceeded in an orderly and fairly routine way insofar as the staff was concerned. It was tragic irony that the Federal Reserve, by following the accepted tenets of central banking of that day, permitted a monetary shrinkage that deepened the Great Depression.

The orderly routine within the Board staff was changed drastically in 1933, however, and working at the Board was never the same thereafter. That year brought Franklin D. Roosevelt to the Presidency, and in 1934 he appointed Utah banker Marriner Eccles to the chairmanship of the Federal Reserve. Both were men of ideas and action. New financial legislation changed the structure of both the banking system and the Federal Reserve Board. The latter was symbolized by a change in title, to the Board of Governors of the Federal Reserve System, but the sum total of the changes was much more important than that. The Board was given major new responsibilities and brand new powers, some of a kind never before exercised by the federal government.

Landmark Legislation

From the beginning of the decade—following on the heels of the October 1929 stock market crash—important problems relating to the structure and functions of the banking system were receiving consideration of congressional committees with a view, as noted in the Board's *Annual Report* for 1930, to determining the need for "legislative and administrative reforms." At the time, the Board refrained from making "specific recommendations" to the Congress.

With bank consolidations, suspensions, and failures continuing to run at exceptionally high levels, and bank income ratios plummeting, the Reconstruction Finance Corporation was established in January 1932 to make loans to banks and other financial institutions. The Glass–Steagall Act, enacted in February, authorized the Board, until March 3, 1933, to engage in open market operations through the use of U.S. government obligations as collateral security for U.S. notes. And in July, the Emergency Relief and Reconstruction Act amended section 13 of the Federal Reserve Act to permit a majority of the Board, in unusual and exigent circumstances, to authorize a Reserve Bank to discount paper (if satisfactory to the Bank) for any individual or business unable to secure emergency credit elsewhere.

The change of Administration in March 1933 brought prompt and drastic financial actions: the Banking Holiday and suspension of gold payments. These were followed by the well-known enactment of legislated reforms and innovations in a wide range of economic and financial areas. In the banking area, the Banking Act of 1933, the Securities Exchange Act of 1934, and other legislation enacted early in the Roosevelt Administration gave the Board and the Reserve Banks many new responsibilities and powers, placed new restraints on the banking system, and involved the Board's officers and staff in interpreting and administering the new laws as well as drafting (and later updating) many new regulations.

The legislated changes included the following: power to raise or lower reserve requirements in an emergency; authority to establish margin requirements on security loans made by banks or brokers; permission for Reserve Banks to issue notes secured by direct obligations of the United States; Board supervision over foreign relations of the Reserve Banks; prohibition for commercial banks also to be securities dealers or to have securities affiliates; prohibition of payment of interest on demand deposits; subjection of interest payments on time deposits to Board limitation; and enactment of federal insurance on bank deposits.

Also, the RFC's lending authority was broadened in mid-1934 to include loans to business enterprises, and the same statute, by adding section 13b to the Federal Reserve Act, authorized Reserve Banks to enter into cooperative lending arrangements with private financial institutions to make commercial and industrial loans. The purpose of this legislation was not so much to give relief to individual businesses or individual banks, as to stimulate economic activity and increase employment.

The Banking Act of 1935 was the final major banking legislation of the 1930s. It was characterized in the Board's *Annual Report* as

> . . . a recognition of broader functions of the System as a factor in the country's economic life and emphasizes and clarifies the distribution of responsibility between the component parts of the System. It preserves the autonomy of the regional banks in matters of local concern, but places responsibility for national monetary and credit policies on the Board of Governors and the Federal Open Market Committee.

The act not only revised some earlier provisions (for example, it made continuously available the authority to change reserve requirements) but also significantly altered the structure of the Board, including its name. "The Federal Reserve Board" became "The Board of Governors of the Federal Reserve System," with a Chairman and Vice Chairman rather than a Governor and Vice Governor; Board members were given the title of Governor; their term was lengthened to fourteen years; their number was increased to seven; and the ex officio members—the Secretary of the Treasury and the Comptroller of the Currency—were removed. It also centralized open market operations under a new Federal Open Market Committee.

Much was made of the Fed's "new independence." And some found satisfaction in Chairman Eccles's recognition that, at least in some situations, a planned program of government deficits—to stimulate private economic activities—was an indispensable means to the revival of a badly deflated national economy.

Impact on the Staff

Adjusting to all these rapid changes was a problem for the staff and all of the Federal Reserve Board members except one: Marriner Eccles was part and parcel of almost all of the legal changes affecting the Federal Reserve. In fact, some were his ideas. He was an active member of the Administration team that worked on many of these changes, as an adviser to President Roosevelt even before he was made Chairman of the new Board of Governors. He took over that chairmanship as a smart, experienced, forward-looking, self-confident, action-minded leader who in turn had the confidence of the President. Working at the Board changed accordingly.

New ideas were sweeping into the Federal Reserve from outside, brought not only by the new legislation but also by Chairman Eccles and others added to the Board and its staff. Eccles came in with his own agenda for the Board. Most of the staff was not privy to this new thinking. The deliberations within the Boardroom were kept confidential with the Board members and a small group of senior staff. Within that senior staff circle, two came to be particularly valued policy advisers. One was E.A. Goldenweiser, an economist who advised the Board on monetary policy and headed the research department. He did both wisely and artfully. The monetary policy issues of the day were often new, both in terms of the situations that were developing and the theories and hypotheses about how to deal with them. In this environment, Goldy both learned and taught well. He also began building a bright, well-trained research department that made a point of being up to date on both facts and theories. It was a precedent that was to serve the Board very well.

The second especially valued adviser was Floyd Harrison. He had a faculty for formulating and crystallizing ideas that was a great help to Eccles and the Board in these critical years. He was well liked by Board Secretary Chester Morrill, and also by Chairman Eccles. Accordingly, Harrison was often allowed to take the lead in staff work to flesh out Eccles's ideas, or to develop new ideas to put before Eccles and the Board.

In some respects, the atmosphere within the Board staff was rather autocratic. The two traditional stalwarts of the Board staff, Secretary Morrill and General Counsel Walter Wyatt, kept the Board's operating routine orderly and set high professional standards in their respective fields. Sometimes there was tension between this orderly situation and the pressing desire to consider, act on, and implement new ideas, but Morrill and Wyatt dutifully adapted the Board's regimen to the new ideas that Chairman Eccles and the Board decided upon.

Much of the legislative-oriented work at the Board during the 1930s benefited not only from the inputs of its staff of lawyers but also from those of staff of other Board divisions and the Reserve Banks. However, when an issue was to be brought to the

Board, it could not be presented as separate and perhaps inconsistent recommendations from a number of sources. Morrill, who served essentially as "Chief of Staff," was generally the one who made sure the disparate views were molded into a single, internally consistent recommendation. This characteristic of the Morrill procedure became clear as its implications trickled down through the various levels of involved staff.

And "trickling down" was typical of the ways the staff learned about what was going on. While all the creative new activity at the top generated much work for the lower-level Board staff to do, only rarely were they informed of "the big picture." They frequently were called upon with short notice to work long hours against tight deadlines, exploring various options or contingencies, analyzing proposed new legislation, and working out the implementation of new laws, some of which had no precedent in U.S. history. Their knowledge of what was happening, however, usually did not extend much beyond their own assignments.

There were a few less senior employees whose expertise in a particular field usually resulted in their being called in for consultation when something in their field was being discussed. Carl Parry and Fred Solomon, with their expertise in securities markets, were two examples.

For the most part, however, lower-level Board employees learned of major monetary, financial, and Board actions from the newspapers and press releases. They had the satisfaction of knowing that their Chairman was much involved in the public policymaking of the decade. But for a greater sense of involvement in "the big picture," the Board staff had to wait until the next decade and the impact of the new World War. ■

WORKING AT THE BOARD

IN THE WARTIME AND POSTWAR

1940s

At the Board, as elsewhere, World War II and its aftermath dominated the decade of the 1940s. "War Service of the Federal Reserve," a chapter of the (1947) second edition of *The Federal Reserve System, Its Purposes and Functions,* starts with the summary statement that "During the war the primary duty of the Federal Reserve was to facilitate the financing of military requirements and of production for war purposes."

The Fed carried out this duty by maintaining a stable securities market in which the Treasury could borrow at low cost; supporting the government's efforts to encourage the purchase of U.S. government bonds by nonbank investors; and arranging private-lender guarantees of loans for defense plant construction and for conversion of civilian facilities to war production. The Board was prepared to raise margin requirements should that appear necessary to prevent speculative purchases of securities. And it implemented the power the President gave it to impose credit controls by issuing Regulation W, which set minimum downpayments and maximum maturities for credit extended to purchase autos and other durable goods; the purpose of the controls was to damp the inflationary pressures exerted by increased consumer demand for scarce civilian goods.

At the same time, Federal Reserve support of the U.S government securities market meant that the Fed had to make sure that the banks had the funds to absorb any securities that could not be sold without inflating the money supply. But as the 1947 edition of *Purposes and Functions* also pointed out, "Prevention of inflation had to become secondary to providing the sinews of war . . . . The inevitable heritage of war is an enormous expansion of money and a grave threat of inflation."

Once the war had ended, the Federal Reserve faced the extremely difficult task of unwinding the financial dislocation arising from the needs of the war effort. During the war the Fed "had to suspend the use of general methods of restraining the growth in the money supply." Now it needed to focus its attention again on regulating the money supply, which had been swollen far beyond peacetime requirements by bank purchases of U.S. government bonds. But it had to do so while at the same time continuing to support the price of such securities in order to protect individual and other nonbank holders from capital losses of the kind suffered after World War I.

In the face of this dilemma, continued reliance on selective controls, rather than primary use of the general instruments, seemed the appropriate course. Margin requirements, which had remained at their prewar level of 40 percent through 1944 and were raised to 50 percent only in early 1945, were increased further to 75 percent late that year and to 100 percent in 1946 (that is, only cash purchases were allowed). The consumer credit controls were extended for two years although compliance began to deteriorate long before Regulation W was suspended in late 1947. Reserve requirements, on the other hand, which had remained unchanged throughout the war years, were not increased until 1948.

The postwar major depression that so many observers had expected never occurred because pent-up consumer demand quickly began to fill the gap left by the decline in military spending. In fact, the increases in installment credit and bank loans were already causing inflation worries to mount at the time Reg W was suspended. In 1948, member bank reserves were reduced early in the year, reserve requirements were increased on three occasions, the discount rate was raised twice, and in September Regulation W was reinstated. Hindsight suggests that the inflation fears that led to these restrictive measures may have been exaggerated, given that the 1948–49 economic contraction is now dated as having begun in October 1948; the contraction was short-lived, however, and it was a cyclical upswing in economic activity that ushered in the 1950s.

The Board Family

There was surprisingly little turnover at the top levels during the 1940s. Marriner Eccles was Chairman until 1948 but a member of the Board throughout the decade, as were two others; another three were members for more than half of that time. At the division level, every division director in 1940 remained so for more than half the decade, at the least.

As would be expected, particularly in the early 1940s, turnover at the staff level appears to have been relatively very high. While only about seventy employees were on military leave, many others resigned to enter military service, some left the Board to take jobs in war agencies, and a number of wives resigned to be with or near their military-service husbands. Only part of the resulting vacancies were filled.

And what of the people who, for one reason or another, remained at the Board and continued to "do their thing"? Although several steps removed from direct participation in the war effort, they still did their thing in a war environment, during work-weeks of six lengthened days.

Staff of the numerous new defense agencies, including former members of the Board's staff, often called on economists and others who were still at the Board for assistance in answering questions they faced. Because they did not have the libraries, the data-banks, or for that matter the time needed for searching out the answers themselves, they had little choice except to rely on what one Board economist called "research by telephone;" the Board was then, as it is now, one of the very best resources for that—and it was heavily used during the war years.

In addition, of course, members of the Board and the senior staff had to be kept apprised of the usual and especially the unprecedented developments of the time and of their effect on the consumer, business, and financial sectors of the economy. Even with a reduced staff, studies continued to be needed on, for example, the impact of existing or proposed taxes on incomes and output, the financial position of the banking system, changes in the labor force, the course of inflation, and so forth. And in order to understand and monitor what was happening in the economy, data also had to be compiled and analyzed on some (for the Board) unusual subjects such as the financing of defense and war plant conversion and expansion, government contract renegotiation, and, later, contract termination, and plant reconversion. In the mid-1940s, the research staff also turned out *Postwar Economic Studies,* a set of eight forward-looking pamphlets on various aspects of the nation's economy as well as on its domestic and international monetary policies.

An important part of the work of the Board's international experts was designed for use far beyond Washington. Early in 1943 the Board was asked to prepare *Handbooks on Money and Banking*, dealing with the European and Far Eastern countries to be liberated by the Allies, for the use of the future occupation forces. In order to do the job, the Board greatly expanded the small international section in the research division, mainly by recruiting economists of European origin, most of them refugees from Nazism—a somewhat different type than the average Board economist.

The Board was fortunate in having two eminent advisers at the time, professors Howard Ellis and Alvin Hansen, who had spent some time in Europe, especially in Vienna, and were able to assemble a group that included some scholars of remarkable ability, such as Alexander Gerschenkron (born in Russia but, as a refugee from bolshevism, educated in Vienna), perhaps the only Board economist to go directly from the Board to a Harvard professorship; Albert Hirschman (an excellent German-born economist), apart from Win Reifler and E.A. Goldenweiser, probably the only Board economist to become a member of the Princeton Institute for Advanced Study; and the Italian-born Frank Tamagna, the Belgian-born Bob Triffin, the U.S.-born Randall Hinshaw and Lloyd Metzler, all of whom later enjoyed distinguished academic careers. In addition, the successive heads of the section in the 1940s, Walter Gardner and Burke Knapp (both U.S.-born), later played crucial roles at the IMF and World Bank. The tradition of scholarship in the expanded international section was maintained when the section became a separate division in 1950, under the leadership of Arthur Marget.

On a more homely level, some of the employees who remained at the Board during the war years also took the time, under the auspices of the Reserve Board Club, to compile a *Federal Reserve News Letter* (later called *The Constitution*) which was mailed to all current or former Board employees in the military service for whom the editors were able to get an address. The publication included letters from those employees, reports of the military promotions, transfers, marriages, or other news the editors had learned about, and answers to inquiries raised in the letters. It also included similar news "from the home front"— marriages, babies, resignations, transfers, and other news about employees or their children, as well as reports on the Board employees' superior record as blood donors and War Bond subscribers.

It was quite a document and was very well received by those for whom it was prepared. Military personnel who could not tell their Board friends exactly where they were or what they were doing could, and did, tell them how much the newsletter, plus an RBC card and gift at Christmas, meant to them. The fact that they were not forgotten but were still considered an integral part of the Board family may have eased their return to civilian life—in some cases back to life at the Board. ■

REFLECTIONS ON FED HISTORY IN THE 1950s

Memories of working at the Board during the 1950s contain several highlights: the Korean War; the Treasury–Federal Reserve Accord; the return of a flexible monetary policy; and, of course, the outstanding Board staff.

The Korean War

Looking back, one startling thing about the Korean War was the alacrity with which the Congress acted to implement tighter economic policies, including some that directly affected Board staff responsibilities. Within a few months after the war started, the Congress had authorized the Federal Reserve to impose direct controls on certain types of consumer credit (Reg W) and real estate credit (Reg X) because the effectiveness of general monetary policy was being emasculated by continuation of the World War II commitment to peg prices of U.S. government securities. In early 1951, the Fed instituted a further special program of Voluntary Credit Restraint designed to discourage the use of borrowed funds to finance "nonproductive" uses of scarce resources.

Staff members involved in the Reg W and Reg X efforts to control credit allocation were generally frustrated by the results. Reg W had been relatively easy to enforce during World War II because production controls on materials and the manufacture of final output had effectively diverted factory production away from consumer products to war goods. During the Korean War, on the other hand, there were no production controls. Industry could continue producing consumer products, and consumers were actively interested in replenishing the consumer durables they had foregone during World War II.

To facilitate continued credit financing of such transactions, industry lawyers proved to be highly adept at developing arrangements that effectively circumvented the letter of Reg W. Fed regulators found themselves lagging far behind industry lawyers, first in ferreting out the loopholes, and then in devising measures to close them. Similar enforcement problems developed in the administration of Regulation X.

This generally negative experience with mandatory credit allocation programs strongly influenced Fed attitudes. Each time the Congress has subsequently proposed new programs for direct credit regulation, Fed officials have taken a negative view of their feasibility.

Voluntary credit restraint. The 1951 program of voluntary credit restraint employed "moral suasion" to implement general guidelines developed essentially by industry groups themselves. Because industry leaders had major responsibility for developing this program, it was harder for them to rationalize its circumvention through a search for loopholes, which are harder to find anyway when the program rests on the spirit of guidelines rather than on the letter of a regulation. Nevertheless, as pressures from the Korean War moderated, this program too lost effectiveness.

Treasury-Federal Reserve Accord

With the Korean War inducing strong general demands for credit, the Fed's continuing commitment to peg U.S. government security prices provided all holders of outstanding marketable Treasury debt with instant liquidity. This promoted very rapid expansion of bank credit, and in the words of Marriner Eccles made the Federal Reserve "an engine of inflation."

However, President Truman felt he had been cheated after World War I when Treasury bonds he purchased to support that war effort had gone to a deep discount. He resolved he would not let holders of World War II bonds suffer a similar fate. Resolving these opposed views and conflicting priorities took several years of painstaking negotiation. The famous "Accord" abandoning pegging was finally reached in early 1951 when a recently appointed young Assistant Secretary of the Treasury named William McChesney Martin, Jr. used his special understanding of U.S. financial markets to reach an agreement with Fed officials and his special gift of communication to persuade his colleagues in the Treasury and the Administration to go along.

Return to Flexible Monetary Policy

Before the Treasury and the Fed reached their 1951 Accord, open market operations had been held hostage to the pegging of U.S. government security prices for more than a decade. In addition, commercial bank use of the discount window had been largely moribund since the early 1930s. Some relearning of the basic elements of flexible monetary policy was thus required as the Fed moved to reinvigorate all of its traditional policy tools: open market operations, discount rate changes, and changes in reserve requirements. Fortunately, Winfield Riefler and Woodlief Thomas, senior economic advisers at the Board, had been actively involved in the original development of open market policy during the 1920s. They, along with several others on the staffs of the Board and the Reserve Banks, provided much of the expertise needed to guide the Federal Open Market Committee (FOMC) in the necessary transition back to a flexible policy.

Free-reserve targeting. However, the transition to a flexible policy was not problem-free. Operations of the FOMC Desk at the Federal Reserve Bank of New York had to be reformed. Also, short-run operating targets had to be developed to guide Desk operations between FOMC meetings.

As the decade progressed, net reserves became the preferred guide the FOMC used to transmit its judgment to the Desk for such purposes. Unfortunately, as time passed the FOMC became too rigid in its use of free-reserve targeting, without fully recognizing that the same numbers in the net reserves spectrum could mean different things at different phases of the economic cycle. Critics of free-reserve targeting pointed out that the degree of policy ease or tightening represented by a given net reserve number depended importantly on the prevailing intensity of demands for bank credit at the time.

Because the criticism of the FOMC's use of net reserves was valid, it led in time to changes in targeting procedures that took account of the behavior of total reserves and money.

Administration of the discount window. Renewed reliance on the discount window as a tool of monetary policy (after two decades of virtual disuse) left discount window officials at Reserve Banks with major uncertainties as to how forthcoming they should be in making loans. To try to achieve greater consistency across Fed districts in allowing member banks access to the Fed window, the Board ordered a special study of discount window operations in 1954. On the basis of this study, the Board then revised its Regulation A regarding discount window operations. In addition, to help promote uniformity in the ongoing administration of the window, the Board established a special conference of Board staff and Reserve Bank discount officers to monitor and coordinate operations of the window across the twelve Federal Reserve districts.

Other policy instruments. The Board of Governors also used other policy instruments actively during the 1950s. For example, to reinforce other Korean War measures, reserve requirements on member bank deposits and margin requirements on credit to finance purchases of stock were both raised at the beginning of 1951. Thereafter, although stock margin requirements were both lowered and raised (as credit developments dictated), most additional actions on reserve requirements were reductions. This was partly a recognition by the Board that the high cost of reserve requirements was placing member banks at a competitive disadvantage relative to nonmembers, resulting in an increasing number of defections from the System.

One other 1950s Board action bears mention, since it presaged a policy dilemma that became much more acute in succeeding decades. At the end of 1956, the Board elected to raise the maximum permissible rate on savings deposits and longer-maturity time deposits at banks from 2½ to 3 percent. In taking this action the Board said there was "no reason to prevent banks (in their discretion) from competing actively for time and savings balances by offering rates more nearly in line with other market rates." Even then, however, savings and loan associations and smaller banks complained vociferously that the higher 3 percent ceiling rate made them unfairly vulnerable to the higher costs of competition for savings from more diversified large banks.

Board Management Procedures

In 1953 the Board decided to increase the extent of its internal audit control and improve its budget procedures. Accordingly an Office of the Controller was created to report directly to Chairman Martin, with Governor Robertson as adviser. Edwin J. Johnson, a C.P.A. and long-time Federal Reserve employee, was appointed Controller.

The next step was to have the Board's accounting program reviewed by one of the top public accounting firms in the country. A large percentage of this company's major recommendations was immediately adopted by the Board, and most of the remainder became part of the Board's internal control and budget approach. The Board also set a policy of having its accounts audited annually by the foremost accounting firms in the country for periods of three years each and provided for the continuation of this rotation in the future.

These actions improved the Board's image with the Congress, the country's banks, and the general public, in that no longer could the Board be considered as its own critic in the accounting and budget areas.

Personalities of the 1950s

Board members. The Board members best known to the general public in the 1950s were Marriner Eccles and William McChesney Martin, Jr. In 1948, President Truman elected not to renew Mr. Eccles's position as Chairman and instead appointed to the chairmanship Mr. Thomas McCabe, Chairman of the Board of the Scott Paper Company, who had been serving also as the Chairman of the Federal Reserve Bank of Philadelphia. While a highly respected member of the business community, Mr. McCabe had little experience with the types of problems facing the Federal Reserve. He frankly recognized this lack of knowledge, relied heavily on the staff for background material and briefings, and in effect delegated much of the task of running the Fed to Mr. Eccles (who had become Vice Chairman). Mr. Eccles continued in this role for a time. But not long after the Treasury–Federal Reserve Accord, he resigned and returned to his family banking business in Utah.

The Accord also was followed by the resignation of Chairman McCabe, who was then succeeded by Mr. Martin. As the son of a former President of the Federal Reserve Bank of St. Louis, Mr. Martin learned early about U.S. financial markets. He then made a reputation as the "boy wonder" who took over the chairmanship of the New York Stock Exchange in the 1930s and successfully refurbished the Exchange's image following the 1929 debacle.

With the enactment of the U.S. draft law in 1940, Mr. Martin, who was then still under thirty-five, received an early call and entered the U.S. Army as a private. After the war, he served for several years at the Export–Import Bank and in 1949 was called to the U.S. Treasury to serve as Assistant Secretary. In the latter position his understanding of U.S. financial markets led him to see the need for abandoning the Fed's pegging policy. When the opportunity arose, he took responsibility for arranging the 1951 Accord.

At the time Mr. Martin took over as Board Chairman, the Executive Committee of the FOMC consisted of the Chairman of the Board, the President of the Federal Reserve Bank of New York, a second Board Governor, and one other Fed Bank President. This rump group met frequently and tended to dominate the formulation of monetary policy. The full Committee itself met only four times a year. Even then, only the Reserve Bank Presidents who were voting members attended. Bank Presidents generally, therefore, had little continuing contact with open market policy—the key exception being the President of the New York Bank.

After observing these power relationships for a few years, Chairman Martin persuaded the FOMC to abolish its Executive Committee and to upgrade the role of the full Committee. After this change, the full Committee met roughly twice a month, and all Fed Bank Presidents were invited to attend all meetings, whether or not they were voting members. This change helped other Fed Bank Presidents to become more knowledgeable about the full details of formulating monetary policy, and broadened the base of Reserve Bank input into policymaking.

Among other Governors on the Board during the 1950s, Jake Vardaman, Louis Robertson, and Canby Balderston are of particular interest. As a longtime friend of President Truman's, Mr. Vardaman was strongly loyal to his mentor. During the height of the controversy over pegging, he operated as a direct channel to the White House, reporting the specifics of Board discussions and actions as they were taken. His role as the President's pipeline ended once General Eisenhower became President. Thereafter, Jake tended to lose interest in the more general work of a Federal Reserve Governor. A few years later he resigned.

Governor Robertson was appointed to the Board in February 1952 after serving as a lawyer in the Office of the Comptroller of the Currency. While the special reason for his appointment was to provide more expertise on bank regulation to the Board itself, he became an active participant in the full range of Board policies, often staking out positions in strong terms. In doing so, he seldom passed up the opportunity to slip in a reference to his roots in Broken Bow, Nebraska. He was also an unfailing "tiger at the net" in the famous Martin–Robertson duo on the Federal Reserve tennis court. For staff members to be invited to play against this team was often a combination of personal compliment and tennis humiliation.

Governor Balderston, former Dean of the Wharton School of the University of Pennsylvania and also former Chairman of the Board of Directors of the Federal Reserve Bank of Philadelphia, is remembered for his contributions to the personnel programs of both the Board and the Reserve Banks, which were far-reaching for that time. During the middle 1950s he was instrumental in an improvement in personnel procedures at the Board that resulted in needed changes in employee benefits, classification of positions, training, and employee relations. He was also primarily responsible for accomplishing a much-improved relationship between the Board and the Banks in the area of officer salaries, and he directed a program that resulted in a mutually agreeable method of setting salary structures for Bank employees.

Senior staff. In addition to Winfield Riefler (Adviser to the Chairman) and Woodlief Thomas (Adviser to the Board), top economic staff in this decade included Ralph Young (Director of the Division of Research and Statistics) and Arthur Marget (Director of the Division of International Finance)—a group of extremely sharp and stimulating leaders of the research staffs. By the end of the decade, Mr. Riefler had retired, at close to the (then) mandatory age of sixty-five, and Messrs. Marget and Thomas were soon to retire. Mr. Young retired in 1966.

Mr. Thomas joined the Federal Reserve in 1920, when he began a two-year stint at the Philadelphia Fed. He then spent the years 1922–28 as a member of the Board's research staff. After two years in Berlin as an economist with the U.S. Office for

Reparations Payments and several years at the Federal Reserve Bank of New York, Woody returned to the Board in 1934 as Assistant Director of the Division of Research and Statistics. He was appointed director of the division in 1945 and Adviser to the Board in 1949.

Win Riefler was a colleague of Woody's in the 1920s, both at the former Brookings Graduate School of Economics and Government (from which each received his Ph.D.) and in the Board's research division which Mr. Riefler joined as an economist in 1923. He left the Board's staff ten years later but returned in 1948 as Assistant to the Chairman. In the intervening years, he held a number of important positions in the U.S. government, served as a director of the Federal Reserve Bank of Philadelphia, and was Professor at the School of Economics and Politics of the Institute for Advanced Study at Princeton.

Ralph Young had been on the staff at the National Bureau of Economic Research prior to becoming Assistant Director of Research at the Board in 1946. He moved up to Director in 1949. Given his National Bureau background, Ralph had a propensity to launch the research division on exhaustive studies. Among those undertaken in the 1950s were a multiple-volume study of consumer credit developments in the United States; the review of the Fed discount window (noted earlier); and a staff study of the Effects of Credit and Monetary Policy, mid-1952 through 1954.

Arthur Marget had been a full professor at the University of Minnesota prior to World War II, and while there authored a major book entitled the *Theory of Price*. After the war, he was head of the U.S. delegation concerned with financial stabilization in Austria. He then joined the Board staff and became the first Director of the Division of International Finance in 1950, expanding both its size and responsibilities as the decade progressed.

Friday mornings during Marget's tenure as division director were typically devoted to staff meetings that Arthur conducted much like an academic seminar. Even relatively junior economists attended, and all were encouraged to offer their wisdom on whatever issues were under discussion (providing appropriate supporting facts and theory). While this sometimes made achieving deadlines on other assignments difficult, members of the division benefited greatly from the practice.

More junior staff already at the Board during the early 1950s benefited from the varied work assignments and rigorous intellectual discussions of relevant economic issues that their superiors encouraged. Several bright scholars among the junior staff later took over from the retiring seniors. Among these members of the new generation were Dan Brill, Bob Solomon, and Steve Axilrod. (One of Steve's corollary assignments was frequently playing tennis against the Martin–Robertson doubles duo.)

Transfers to private sector. As the Federal Reserve returned to its traditional task of implementing a flexible monetary policy, private institutions active in U.S. financial markets discovered that the Board had developed an enviable but low-priced staff of financial experts, some of whom could be persuaded to make promising career changes. For example, Charlie Schmidt, Chief of the Business Finance and Capital Markets Section, left the Board to become portfolio manager at the National Bank of Detroit. He became very successful in this position before his life was cut short by an untimely heart attack. Later, Richard Youngdahl, then an Assistant Director of the Division of Research and Statistics, left to join Aubrey Lanston as a securities trader. When Aubrey Lanston died, Dick replaced him as the chief executive officer.

In the early 1950s, while on a vacation in Arizona, Woody Thomas persuaded Ralph Leach, then managing the securities portfolio of the Valley National Bank in Phoenix, to come to the Board to join the Government Finance Section. Chairman Martin soon began to rely heavily on Ralph (as one market man to another) for interpretations of current and prospective financial developments. Ralph and Dick Youngdahl were also largely responsible for the Fed study that preceded the 1953 changes in FOMC operating procedures. The hearings with market participants on which this 1953 study was based brought Ralph into close contact with key people at leading financial institutions. Later in 1953, Ralph was hired by the Morgan Guaranty Trust Company, where he subsequently advanced to become treasurer.

Another alumnus of the Government Finance Section who moved to the banking industry was Don Miller. He originally joined the Board on leave from the University of Illinois as a visiting scholar doing research on fiscal policy. He was persuaded to stay on as a regular, and then became head of the Government Finance Section when Ralph Leach departed. In this position, Don had close contact with officials of the Treasury, including Dave Kennedy, who was then the Special Assistant for Debt Management. Later, when Dave Kennedy became the CEO at the Continental Bank in Chicago, Don joined him as part of the Continental portfolio management team. Ultimately Don became vice chairman.

Such staff moves were to continue throughout the ensuing decades, in evidence of the external judgments of the quality and value of the Board staff relative to its compensation. It is a tribute to the standard of ethics adhered to by departing Board staff members that no public scandal over the abuse of "insider" information has ever developed in the wake of these departures.

Transfers between Reserve Banks and the Board. While Board section chiefs were sternly admonished not to lure promising talent away from Reserve Banks to the Board, a few Bank staff members, nevertheless, arranged such transfers from time to time.

On occasion, the flow of talent went in the reverse direction. Thus, Homer Jones, who had come to the Board staff from the FDIC (in the late 1940s) to head the Consumer Credit Section, moved (in the late 1950s) to the St. Louis Fed to become research director. There, he received a much more sympathetic hearing for his views on the importance of money supply in the targeting of Fed policy than he had at the Board.

The intra-System personnel movements were to grow in numbers in ensuing decades and broaden in range, eventually coming to include Board members also. ■

THE ATMOSPHERE OF THE 1960s AT THE BOARD

The decade of the 1960s soon brought a fresh breeze to both the nation and the Federal Reserve. The election of 1960 put a young and vigorous President in the White House. He exuded confidence in rational thought. He arrived with some fresh ideas, and he was in the market for more. Accordingly, in a number of his early appointments he chose highly trained, intellectually curious individuals with forward-looking attitudes. They brought new ideas of their own and of other thinkers into policy circles.

One such appointment was the naming of George Mitchell to membership on the Board. Mitchell was a blunt-spoken fiscal expert and research director at the Federal Reserve Bank of Chicago. His style of probing inquiry into Federal Reserve issues took some getting used to, but in time his colleagues on the Board and the staff came to appreciate it.

In this atmosphere of intellectual challenge the Board staff responded vigorously. Friendly debates on policy issues great and small were common in the Board offices and over the cafeteria tables. The directors of the two research divisions, Arthur Marget and later Ralph Young for the Division of International Finance and Jack Noyes and later Dan Brill for the Division of Research and Statistics, were open to bringing in outside experts to exchange ideas. Brill was particularly adept at drawing thought-provoking scholars of varied backgrounds into the Board's offices for occasional talks or short stays.

A somewhat more collegial tone came to pervade the halls of the Board. The Board even established a panel of outstanding academic consultants, who provided some very stimulating exchanges in their periodic meetings around the Board table.

This atmosphere was enhanced by the next three appointments to the Board – Dewey Daane in 1963, Sherm Maisel in 1965, and Andy Brimmer in 1966, all of whom were well-trained professional economists. In fact, Maisel's appointment raised the number of economists to a majority on the Board, a condition that was maintained throughout the rest of the 1960s and the 1970s. Staff reaction to this situation met the classic definition of "mixed feelings," if one were to judge by the nature of comments exchanged in jocular moments. Research division personnel seemed to relish the professional level of many of their exchanges with the economist Board members, but often groaned under the burden of a constant stream of special research requests from them. Staff in other divisions occasionally felt left out of some of the economist-to-economist exchanges but also felt relieved to receive a smaller share of the Board member requests for data and analysis.

In the early years of the Kennedy Administration, the Board members and staff found to their pleasant surprise that a number of the new Administration officials also relished the kind of intellectual inquiry taking place within the Board building. Periodic meetings with one or more of the members and staff of the Council of Economic Advisers, for example, frequently became lively seminars on the economic issue of the day. While differences of views were common, the exchanges were generally friendly and constructive.

As these discussions continued, confidence in them increased, primarily because U.S. economic progress was proceeding fairly well. In other fields, the nation received some jolts—the Bay of Pigs disaster in 1961, the Cuban missile crisis in 1962, and the tragic assassination of President Kennedy in 1963. In the economic sphere, however, whatever shortfalls and setbacks developed were mild enough not to discredit either the basic economic policy objectives or the means by which they were being pursued.

Monetary policy debates within the FOMC were vigorous, but the differences being debated usually were relatively small. New tools were being put into place to produce more sophisticated economic analyses. The painstaking conceptual and statistical work launched under Ralph Young in the 1940s to develop the flow of funds accounts was bearing fruit in more comprehensive analyses of financial flows in Board briefing documents. Dan Brill and Steve Taylor became increasingly adept at relating the flow of funds statistics to one or another of the financial issues of interest to the Board.

In the back rooms of the research division, experimental work with the new science of econometric modeling was going on. This was mind-stretching work for Frank de Leeuw and the rest of the staff involved, and practical benefits did not come quickly. It was not until the decade of the 1970s that the output from econometric models became a really important part of the analytical material that the Board and the Federal Open Market Committee weighed in their deliberations.

Such work involved more and more number crunching and was heavily dependent upon the developing computer capability within the staff. The Board's pioneer in computer technology and its utilization was Herb Schwartz. Herb had all the main attributes of a pioneer—vision, know-how, enthusiasm, dedication, and persistence—and he needed all these as he strove to push and pull the Board into the computer age.

The International Dimension

In the early years of the decade, the most portentous economic warning signal that was flashing was the nagging balance of payments deficit. It was of small magnitude compared with those that emerged in succeeding decades, however, and its implications were not well understood by many Americans. The United States saw itself as strong and growing economically stronger, and at the same time carrying the burden of free world military and economic leadership for which it deserved some gratitude from its allies.

The proximate cause for the balance of payments deficits was a sizable capital outflow from the United States, as owners and lenders of U.S. capital assets were increasingly attracted to the higher interest rates and improving economic prospects available in several other major countries. An appropriate short-term policy strategy for the United States, therefore, seemed to be to develop and utilize various mechanisms to slow this outflow of capital and to absorb much of the excess dollars accruing in the coffers of European central banks by devices other than the outright sale of U.S. gold to them.

One such mechanism was the "swap," an operational technique for purchases and sale of foreign currencies, backed by a network of short-term mutual credit arrangements among the key central banks. A little later in the decade came "Operation Twist," a nickname for Federal Reserve open market purchases of longer-term Treasury securities intended to moderate upward pressures on long-term interest rates from Fed sales of short-term Treasury securities for traditional reserve-absorbing purposes.

In addition, the Interest Equalization Tax was enacted in 1963 to help staunch the private capital outflow from the United States by making U.S. private sector purchases of foreign securities less attractive. And in early 1965 the Voluntary Foreign Credit Restraint Program was instituted. The Board was given the power to run that program, not only in its application to banks, as would be expected, but also in its application to all types of nonbank financial institutions. Governor Robertson, later succeeded by Governor Brimmer, was put in charge of the program. Their administrative talents, and the day-to-day operating support provided by Bob Sammons (later, Bernie Norwood) for banks and Eleanor Stockwell for nonbanks, gave the program as respectable a showing as could be expected.

Nonetheless, the Board as a group was uneasy about this program's interference with private credit decisionmaking. That Board uneasiness also applied in varying degree to each of the other mechanisms cited here for dealing with the U.S. capital outflow by means beyond such traditional macroeconomic policies as further tightening of fiscal and monetary policies.

Like a "good soldier," however, the Fed went along with the command decisions on the final policy mix. In the area of international financial policy, by law and Presidential delegation of power, the Treasury was "top dog." The key person usually was the Under Secretary of Treasury for Monetary Affairs. The Fed Board Chairman was always an influential voice. Also, in this arcane field due weight was usually given to the technical expertise of the foreign exchange market staff at the Federal Reserve Bank of New York and at the Board's Division of International Finance. On some aspects, the views of the U.S. Executive Director at the International Monetary Fund also were important.

The arguments within this group were frequent, earnest, and occasionally intense. Who sided with whom could vary from issue to issue. Some of the territory covered had no U.S. precedent to guide the participants, and factual evidence on what was the right thing to do was often unobtainable. Nonetheless, when the operational decisions were made in each case, the group faced up to the need to join ranks and pull together in implementing them.

Dealing with Domestic Inflation

By the middle years of the 1960s, domestic economic expansion had proceeded far enough to begin generating increasing signs of upward price pressures. Inflation concerned the Board, and the staff's economic analyses were attuned to detect and evaluate the known contributors to current and prospective inflationary pressures. In late 1964 and 1965, strengthening civilian demands were augmented by a surge of military orders as the Administration moved to escalate U.S. military capability to wage the war in Vietnam. For both strategic and political reasons, however, this escalation was kept a closely held secret. Along with numerous other government offices, the Federal Reserve was given no information on this buildup or its likely economic impact. Through much of 1965 this lack of knowledge handicapped Fed policymaking. The Federal Reserve economic information gathering network began turning up surprisingly large statistics for the rise in business loans, inventories, and capital equipment orders, as defense contractors positioned themselves to produce under the new military contracts. But without any factual evidence of stronger fiscal demand, those statistical bulges looked more like aberrations than the start of a markedly stronger and potentially inflationary uptrend in real demand (which, of course, is what they were).

For much of 1965, the Board and its staff strove to clarify these anomalies in its information inflow, in order to be able to calibrate better its actions to restrain money and credit expansion. Small precautionary restraining actions were approved by the FOMC during the summer and early fall, but by November the Board members decided they could wait no longer to take a decisive step. They approved a collection of Reserve Bank requests to increase their discount rates. They did not expect the Administration to like this action, for its representatives had been urging the Fed all year to go slow in taking any monetary restraining action. Presidential response was quick: President Johnson, on a brief vacation at his ranch, wanted to talk to Chairman Martin. Martin dutifully flew to Texas, while his colleagues and staff waited, with memories of the previous painful dispute between President Truman and the Federal Reserve very much on their minds. But once again Bill Martin's market knowledge and communication skills were up to the challenge. He and the Fed emerged unscathed.

Throughout the rest of 1965 and 1966, increasing monetary restraint was the rule of the day. By 1967, this monetary drag and other forces of deceleration produced a short and mild economic slowdown; accordingly, the Fed eased up somewhat, but not for long. With still more "guns and butter" spending stoking the economic fires, consumption and investment turned up strongly. The resulting excess in total demand spilled over into both domestic price increases and a renewed deterioration in the U.S. balance of international payments. Thereafter, throughout the rest of the decade, the Fed's monetary policymaking was focused on fighting inflation. With Ralph Young's retirement, the staff leadership in this work rested with a new "troika" of Dan Brill and Bob Solomon who headed up the domestic and international research divisions respectively and Bob Holland as Secretary of the Federal Open Market Committee and subsequently also Secretary of the Board.

The work that went into the Board's analysis of inflationary forces and how to deal with them was intense. Frustratingly for both the Board and its advisory staff, however, its succession of traditional-sized monetary tightening actions plus its unconventional Voluntary Foreign Credit Restraint Program were not enough to offset the sustained inflationary push of public and private spending.

Dealing with a Changing Banking Structure

The domestic and international financial developments during the 1960s helped to increase the incentives for many banks to alter their basic structures. Some responded by trying insofar as possible to expand and diversify the geographical scope of their service markets. Others sought diversification by entering into new product markets. Many banks sought added strength and economies of scale by endeavoring to grow larger, partly by growth-oriented banking policies and partly by mergers or acquisitions when such opportunities could be found. Often these actions pressed the limits of existing bank structure legislation. Occasionally this tendency led to court cases to clarify the boundary lines of banking. More often it led to advocacy of new legislation to give banks wider scope for their operations.

The Federal Reserve, as one of the three major federal bank supervisory agencies, was drawn deeply into deliberations on how to deal with these developments. Much of the existing laws and regulations had been created to prevent recurrence of the banking problems of the 1920s and 1930s. Safer and sounder banking was their prime goal. But many bankers and others now agreed that, with these lessons learned, such tight constraints could safely be relaxed. Moreover, there was pressing reason to do so because in the post-World War II era more and more competition for customers was developing, much of it from institutions conveniently positioned just outside the restraints applicable to banks.

Early in the 1960s, the Board moved to bolster its analytical foundations for deciding issues of banking structure. It created a new Banking Markets Unit within its research division to make appropriate use of the extensive theoretical and empirical work done by academic economists over the years on the definition and functioning of competition in markets for goods of various kinds. This new Banking Markets group was quickly staffed, in good part with industrial organization experts from university faculties, and a mutual educational process was begun. The guiding principles, analytical techniques, and rules of thumb that the economic analysts thought desirable to apply to banking structure issues, with emphasis on competitive performance, needed to be blended with the differing tools used by lawyers and bank examiners to judge issues of safety and soundness as well as competitiveness. There were plenty of possibilities for misunderstandings, failures of communication, and "turf" battles. On the whole, relatively few of these materialized. Partly this was a tribute to the personalities of the individuals involved and their urge to get on with the Board's business. Partly it was a practical reaction to the looming volume of issues and cases that needed to be dealt with. There was more than enough work to go around. Three key staff members with a "let's get the job done" attitude were particularly helpful in these endeavors: Brent Leavitt, Assistant Director of the Division of Examinations; Tom O'Connell, Assistant General Counsel in the Legal Division; and Tynan Smith, the in-house economist chosen to head the Banking Markets Unit. The Board members soon came to appreciate the good judgment of each of these men individually and the synergistic quality of the work of their units collectively. Their superiors on the Board staff as well as the Board members themselves learned how much they could rely on this trio in finding their way through the jungle of entangled and often conflicting facts, rules, and allegations applicable to banking structure.

In its decisions on the numerous banking structure cases, the Board tried valiantly to build a logically related progression of case precedents. But that was often impossible to do because of the misfits between the pre-World War II and post-World War II banking environments. Particularly mind-boggling were the implications of the potential structural innovations of which bank holding companies were capable. To try to resolve these matters in what it regarded as reasonable fashion, the Board repeatedly requested a number of changes in relevant federal legislation. But here it was not especially successful. That reflected a number of forces at work: The counterbalancing legislative influence of banks that wanted to expand, merge, and diversify and banks that did not; the respective lobbying strength of banks that wanted more freedom and other financial intermediaries ("near banks") that wanted banks to be kept within their existing confines; the varying intensity and effectiveness of the "turf" defenses mounted by the various regulatory authorities; and the particular preferences of the Administration and especially the Congress of that time.

Patman and Proxmire and Their Consequences

No history of what it was like at the Board would be complete without some reference to the impact of two particular members of the Congress: Representative Wright Patman and Senator William Proxmire. While their terms of congressional service extended well beyond the 1960s, their impact on the Fed in this decade is typical.

They were key congressional leaders, Patman heading the House Banking Committee and Proxmire the Senate Banking Committee for much of this time, as well as serving on several other influential congressional committees and subcommittees. When the Fed wanted a change in banking legislation, it was usually through these two chairmen that it had to proceed. In turn, when the Congress wanted to exercise its power of oversight over the Federal Reserve System it had created, it was usually one of these two chairmen who mounted the inquisition.

Both were canny and well informed. Patman was a populist, who regarded the Fed's occasional tight money forays as an oppression of the common man. Proxmire was a thrifty liberal, who advocated activist government but detested spendthrift bureaucrats and inefficient programs. Each of them found plenty of opportunities to try to trim the Fed's wings.

A hearing before either of these gentlemen was something of an ordeal. Word of a new invitation to testify before either one was typically greeted around the Board with the institutional equivalent of a sigh. Preparations for the appearance were strenuous. Often a very substantial support document was required. Weeks and sometimes months of staff time were spent in its preparation.

The testimony itself often included a good deal of grilling of the Fed witness by the committee chairman, rather in the style of a determined prosecuting attorney. It was a rare day when the Fed's representative could return from such a session and say "I got what I wanted."

Sometimes Patman and Proxmire would turn the tables on the Board by introducing some proposed new legislation that would take away some cherished Fed power or privilege. Bringing budgets of the Board or the Federal Reserve Banks under congressional control was a favorite thrust, and one the Fed regularly resisted. To the Fed, this breached the carefully crafted insulation from pressure politics that had been a key part of the legislation that had created it. As a practical matter, the Fed was a "cash cow" for the federal government, (a byproduct of its congressionally given power to create money) rather than a net user of federal budgetary resources, and every Federal Reserve spokesman knew that.

To help prove groundless the recurrent charge by Patman and Proxmire that the Fed was a wasteful spender of resources, the Board often turned the budget screws as tight on itself and the Federal Reserve Banks as the Administration and the Congress were endeavoring to do to the rest of the federal government. Nobody on the Board staff enjoyed these episodes. In fact, the Board was not a lavish spender to begin with, so often what resulted were marginal spending curtailments that took nicks out of a sizable number of cherished projects, programs, and perquisites, of which the most important were undoubtedly staff salary increases.

Apart from these "P & P pinches," the Board recognized that its special budget position also carried the implicit responsibility to be more attentive than the average federal agency to the cost-effectiveness of its use of resources. Accordingly, over time it evolved several techniques for discharging this special responsibility. In the 1960s, it was delegating oversight of the Board's budget to one of its members (who was called the Administrative Governor). Early in the decade that task was given to a Governor with experience in managing either a government or university budget. Later on, this power was vested in one after another of the Governors who came to the Board with background as a corporate senior executive well versed in modern management techniques. The first of these was Bill Sherrill, who was appointed to the Board in 1967. With the backing of the Board, Governor Sherrill presided over the development and installation of a management-oriented planning and budgeting process. It was not exactly an ideal fit with the existing Board staff culture. The typical officer of a Board staff division felt that his people worked hard, they did not waste many resources, and almost all of what his unit was doing were things the Board had asked for. By and large he was probably right in these judgments. But the new management system had its benefits nonetheless. It made all the managers more cost-conscious; it made the staff leaders and the Board do more coordinated planning ahead; it imposed a certain degree of discipline on the Board members' requests for staff work; and it helped answer the budget attacks by Chairmen Patman and Proxmire.

All told, by the end of the decade, the Board had equipped itself with a new generation of tools for economic analysis, a new managerial system, and a new generation of staff leadership with which to respond to the challenges of the 1970s. ■

WORKING FOR THE FED IN THE 1970s

As the century turned seventy the staff of the Federal Reserve Board bent to two huge new tasks, under the new leadership of Arthur Burns: helping the Board find its way in supervising *all* the nation's bank holding companies newly endowed with authority to own nonbanking businesses, while adapting to the strange (for a central bank) new role of consumer advocacy mandated by the Congress in the Truth in Lending Act. As the decade ended, under the new leadership of Chairman Paul Volcker, the staff found itself transformed from the relatively obscure community of bank regulators and monetary policy experts, into advisers to the nation's key economic policymaking body, hotly engaged in Volcker's take-no-prisoners fight on inflation.

Between these bookends to the decade there were volumes—more than can be said here—of other changes, many of them dynamic, that affected the responsibilities, work load, exposure, and outlook of both the Board and its staff. A summary of these less dominant factors includes massive data gathering, numbers crunching, and monitoring as the Fed did its part, however doubting, in attempts by the White House to contain inflation by freezes, controls, voluntary restraints, and similar programs in 1971–74; adapting Board procedures and rules to the invasive Freedom of Information and Government in Sunshine legislation of 1974 and 1976; overhauling all the Board's regulations to make them more readable, to update them, to cut out deadwood, and to ease regulatory burdens; adapting to an increasingly demanding series of new reporting and recordkeeping requirements by the Congress; developing a national network of computerized regional centers for overnight check clearance; developing, together with other federal banking supervisors, uniform examination procedures; and initiating a long-term squeeze on banks and bank holding companies to improve capital ratios.

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Consumer credit protection, the bank holding company wave, interest rate deregulation, the growth of money market mutual funds and of international markets, and the fight on inflation greatly altered the staff's and the Board's work load. But the most important thing that happened to the Fed and those who worked there during the 1970s was that all these things together pushed the Fed front and center as the strongest, sometimes the only visible, national economic policymaker.

These changes, together with the heavier impact of consumer credit protection, bank holding company supervision, and the fight against endemic inflation affected every part of the Board, from the work of the Governors to the printshop. Here are some snapshots of the work load in the 1970s:

- The Board held an average of 139 meetings yearly during the decade. The Governors were required to prepare for discussion of each agenda item, involving a heavy reading and study load. The Secretary's office had to prepare the Boardroom for meetings, prepare the agenda, and keep the official record. The legal staff had to be prepared to discuss any agenda item with legal complications (the majority). After enactment of the Government in the Sunshine Act, the legal staff had to determine, in light of the requirements of the act, what meetings or what agenda items should be open to the public. The public affairs office had to announce in advance what items would be discussed in public. And someone had to stand by to elucidate the Board's decisions, often blurred by Chairman Burns's pipe or Chairman Volcker's cigar.

- The Legal Division produced ninety-three proposed and final regulations, interpretations, and policy statements in 1970; 102 in 1977, and 159 in 1978: an average of 126 a year in the 1970s. The Board's legal submissions to the *Federal Register* took up 346 pages in 1970 and 899 pages in 1979. The division counts twenty-five major pieces of legislation passed in the 1970s affecting the Fed.

- Production of news releases covering proposed and final regulations, policy statements, and like substantive subjects rose from fifty-one in 1970, to seventy-one in 1975 and to ninety-two in 1979.

- Beginning with bids in 1970 the Board's administrative staff supervised building of the Board's annex on C Street, dedicated in 1974 as the William McChesney Martin building.

- The Chairman and other Board members testified before the Congress seven times during 1970, an average of fifteen times a year in the first half of the decade and an average of forty-two times a year in the last five years, including sixty appearances in 1979.

- The Board established a Freedom of Information Office in 1974 under the amended FOI Act. The FOI office answered 3,969 queries under the act that year, 5,112 in 1979, and an average of 4,455 from 1974 to 1979, rejecting only 2.4 percent of requests received (under FOI Act exemptions).

- While the Board's work grew manifold, its staff grew during the 1970s less than two-thirds, from 902 to 1,451.

Protecting the Consumer's Use of Credit

When the Congress handed the Fed the Truth in Lending Act for implementation there were those at the Board, high, low, and in-between, who wondered whether this was the right work for a central bank to be doing. They could have been reassured by reference to the debates in the Congress that shaped the Federal Reserve's mission. Presciently, on November 24, 1913, Senator Robert Latham Owen, Chairman of Senate Banking, told the Senate:

". . . This Federal Reserve Board will be a supreme court of American finance . . . protecting our banking system, protecting our commercial system, protecting the individual credit of the private citizen and giving him a fair deal . . ."

However, even far-seeing Senator Owen probably never envisioned the "cascade" (as the Board's 1975 *Annual Report* described it) of consumer credit protection laws that the Congress showered on the Board, with directions to write implementing regulations. By the end of the decade, the Board had nine such laws under its writ: Truth in Lending, Fair Credit Billing, Flood Disaster Protection, Equal Credit Opportunity, Federal Trade Commission Improvement (handling of consumer complaints), Home Mortgage Disclosure, Consumer Leasing, Community Reinvestment, and Electronic Fund Transfers.

The Board's consumer affairs staff had to master the "ins" and "outs" of each of this diverse collection of laws and businesses covered if it was to be able to write regulations that tried to reconcile the goals of nondiscriminatory and fair access to, and use of, credit by the consumer with the lender's right to distinguish among those who are, and those who are not, creditworthy.

Beginning with the Home Mortgage Disclosure Act and the Community Reinvestment Act, the Congress has added a ticklish societal twist to the Board's responsibilities in implementing consumer credit protection laws.

CRA, further, added a new dimension not only to the work of the consumer affairs staff but also to the work of the Board and the banking supervision staff. In an unprecedented reach beyond consumer credit protection per se CRA required all federal banking supervisors to "consider," when deciding on banking activity proposals needing federal consent, whether the proposer was measuring up to the CRA directive to meet the credit needs of its community (consistent with sound banking), including low income neighborhoods. In a response recognizing the extraordinary demands of the CRA law the Board renamed its consumer affairs division the Division of Consumer and Community Affairs and authorized appointment of community affairs officers at the Board and at all Federal Reserve Banks.

Each of the many proposed and final regulations, and related policy statements, interpretations, and commentaries issued in response to the consumer credit protection laws had behind it a mountain (sometimes large, never small) of staff studies and drafting. Each also required a summarizing release by the Board's public affairs office.

GRIFF GARWOOD

The Board has always been ambivalent about its consumer credit protection task, a task no other central bank deals with. And there is some haziness about why the Board was chosen for the job.

At first the Board didn't know what to make of it, and some were against it. But when Truth in Lending came to the Board as issues to decide some Board members liked it. It was a switch to be dealing with rules for settling billing disputes and the like—the Governors were consumers too, and had had their own arguments with department store computers. Still, some uneasiness lingered.

Through 1974 attention was focused on getting required Truth in Lending regulations in place. Beginning in 1975 and alerted by staff worries, the Board intensified its emphasis on compliance with its regulations, on simplification of Reg Z, and on education of both borrowers and lenders. The Board formalized its procedures for handling consumer complaints against state banks in Reg AA and set up a compliance section in the consumer affairs division. The Board asked the Congress for and got authority to establish a Consumer Advisory Council, representative of both borrower and creditor interests, to advise the Board over the range of its consumer affairs responsibilities. The consumer affairs division established a special corps of examiners, developed special consumer credit examiner materials, and set up Systemwide procedures for examining state member banks once yearly. Following up on a survey that found that the disclosure requirements under the act and Reg Z were providing more information than consumers could easily use—and creditors could easily produce—the Board re-emphasized its efforts to get the Congress to simplify the law.

COMMUNIQUE FROM A SMALL BANKER

The president of a country bank on the Kansas prairie wrote to the Board that he was faithfully stacking in a corner of his office the "hail" (bad word in wheat country) of new regulations turning up regularly in the mail. He added that he hoped "all your typewriter ribbons dry up, and all your pencils break."

Restructuring the Banking Community

If the Board had greatness thrust upon it in consumer credit protection, such was not the case with the recasting of banking in the bank holding company format. The Board, in its 1969 Statement of Principles, had asked to have the bank holding company law it administered amended to bring unregulated one-bank holding companies under Board jurisdiction. On the last day of 1970 the Congress complied, making some 1,200 one-bank companies subject to Federal Reserve regulation and supervision.

More notable, in terms of impact on the Board's work load, the 1970 Amendments to the Bank Holding Company Act of 1956 made it possible for bank holding companies to acquire nonbanking businesses, subject to a finding by the Board that the proposed nonbanking business was closely related to banking or bank management, would not impair competition, and would benefit the public.

The bank functions of one-bank holding companies were brought under Board regulation without much trouble. But the amendment allowing acquisition of nonbanking businesses involved the Board in literally thousands of judgmental decisions in the 1970s.

Each of these decisions was based on staff and Reserve Bank study— often extensive— to assess each proposal under the terms of the revised bank holding company law. Many of the decisions, particularly those made early on while policy lines were being laid down, were difficult, involving extended legal and supervisory staff presentations to the Board, thick staff papers, appearances by Reserve Bank representatives, and long Board debates. In each case, the Board's public affairs office released to the media statements announcing the Board's findings, and where indicated, giving in extenso factual background and the Board's reasoning. The following illustrates briefly the dimensions of the work load involved, and how it grew:

> In 1969 the Board acted on 90 proposals from bank holding companies. By 1973, it was 1,599, of which 872 were decided in the Boardroom and 727 were approved under authority delegated to the Reserve Banks to approve applications under certain conditions (but not to deny) subject to final Board review. The total was still over a thousand in 1978 and 1979. For the decade, the Fed decided 9,280 proposals, 3,574 directly by the Board (with the staff working under the gun of a Board directive to bring recommendations on 90 percent of proposals eligible for action to the Board within 90 days of receipt from the proposer of all necessary information). At the end of 1979 some 2,478 bank holding companies were in operation and they held 70.6 percent of domestic assets.

In January 1971, less than a month after passage of the Bank Holding Company Act Amendments, the supervisory and legal staffs had recommended, and the Board had issued for public comment, amendments to Reg Y specifying ten nonbanking activities the Board proposed to make permissible for bank holding companies. In May, after an airing at a hearing of all issues raised following publication of its proposals, the Board adopted a slightly revised version of its January proposals. With this, the Board set its foot on a long road leading eventually to the incorporation of nearly all major banks and also many smaller banks in the United States into bank holding companies, linking them to thousands of nonbank subsidiaries of their holding companies. In this process, U.S. banking was restructured.

The first half of the decade was focused mainly on feeling out the permissible boundaries for nonbank acquisitions by bank holding companies according to what the Board, based on staff study and recommendations, decided was or was not closely enough related to banking, what sorts of public benefits carried weight, and what would encourage—or at least not impair—competition. As policy became clear, the Board was able to delegate an increasing share of the case load to the Reserve Banks for decisions on the basis of settled Board policy.

By mid-decade, the staff discerned a trend among bank holding companies to put cash into acquisitions without adequate balancing additions to hard capital. To signal its preference for greater emphasis on building up capital, the Board in 1974 denied two applications by large bank holding companies for small acquisitions on grounds that the holding companies needed more capital. This "go slow" was effective, as indicated by a sharp decline in proposals in 1975–77. Concerned also by staff findings suggesting deteriorating compliance, the Board directed the staff to turn its focus to surveillance and compliance. Board letters to the presidents of the Reserve Banks bid them caution all bank holding companies that they would be held to strict compliance with Reg Y and the bank holding company act. Letters to all bank holding company CEOs warned against intramural dealings on terms better than would be realized in arm's-length negotiations.

In 1977, the Board asked the Congress to give it authority to regulate banking institutions—banks, bank holding companies, agencies, and the like—owned abroad but operating in the United States, in view of the "dramatic rate" of their growth. The Congress eventually obliged with the International Banking Act of 1978, which had an impact on the Board's regulatory responsibility comparable to that of the 1970 Bank Holding Company Amendments. With this in hand, the international finance and the legal staffs began a massive research and rule writing effort to devise the means for supervising these institutions. The foreign banking institutions presented many new supervisory problems arising from their foreign ownership and their previous unregulated status. The philosophical ground had been prepared by a task force under Governor Mitchell, which concluded that "national" treatment would be the fairest and most efficient approach. Foreign-owned institutions in the United States should be subject to the same restraints and requirements as U.S.-owned institutions, while U.S. banking companies abroad would conform to the rules of their host governments. That is, "when in Rome . . ." The end result was a large and complex new Reg K and a series of fine-tuning amendments of it extending over many years.

Restructuring the Financial System

The rush to the bank holding company format transformed the structure of banking as it had been known in this country. Almost simultaneously the financial system underwent changes that broke down the traditional U.S. financial institutional arrangements, with substantial effects on working for the Fed.

The decade began with a first step towards a deregulated financial community in the form of prearranged bill-paying by savings and loan associations out of savings accounts. In 1972, negotiable orders of withdrawal (NOWs) bowed in at state-chartered mutual savings banks in two New England states. By mid-decade the explosive growth of money market mutual funds (outside the banking system and free to pay any interest rate they wished) showed that there was an enormous demand for a place to put funds that would earn free market rates of interest. This signalled the final end of interest rate controls under Reg Q. In 1977 NOWs were authorized nationwide, foreshadowing the end to the traditional turf lines separating commercial and savings banking.

In August 1971 the Bretton Woods exchange rate system was brought to an end. The U.S. gold window was closed. The IMF tried, but failed, to put together a new fixed exchange rate system. The world went on floating exchange rates. Nineteen seventy-six saw the first Mexican debt crisis ("Training for six years later"—Ted Truman).

This transformation of the financial system set off successive waves of staff work, adapting Fed procedures and rules as each of the changes occurred.

These events also contributed to intensification of the ongoing erosion of Federal Reserve membership. Deregulation of interest rates and authorization for savings institutions to offer services that had been exclusive with commercial banks—such as checking accounts—sharpened competition and affected profit margins at commercial banks. Member banks feeling the pinch looked longingly at earnings foregone on their reserve deposits at the Reserve Banks. In growing numbers they decided they could no longer afford this cost of membership, and withdrew. In 1969 member banks held 81 percent of commercial bank deposits. By the end of the decade member bank deposits were only 70 percent of the total. Alarmed at this leaching away of the deposits on which the fractional reserve system rested, the Board and its staff, particularly the research division staff, began intensive studies to document it and to find a remedy.

TED TRUMAN

If I look back to my early days here, the big difference is the change in the Board's view of the rest of the world. The rest of the world generally was regarded as an annoyance, and the international division often was viewed as being engaged in ceremonial affairs, fending off, really, the rest of the world. Dr. Burns's interest in international economy changed all that, and now the Board is fascinated with the foreign economies.

Armed with staff studies and analyses the Board began in 1971 to lobby the Congress to broaden Federal Reserve authority to require reserves on deposits beyond the deposits of member banks. New requests for legislative relief went up to the Hill year after year, backed by Board testimony that the loss of member bank deposits weakened monetary control. The chronic membership problem became the main focus of the chairmanship of William Miller (1978–79), who enlarged and intensified all aspects of the unceasing staff work dealing with it. In seeking a basis for agreement in the Congress, the Board's congressional liaison staff had to contend with stiff opposition from the savings industry and others who would be required to put up reserves.

In 1980 the Congress finally acted. The Monetary Control Act of that year gave the Board the remedy it sought: a broadened institutional base of required reserves for monetary policy to act upon, and a level regulatory playing field for member and nonmember banks offering banking services.

Meantime, in three actions—in 1975 (H. Con. Res. 133), in 1977 (Federal Reserve Reform Act), and in 1978 (Full Employment and Balanced Growth Act)—the Congress had imposed steadily more demanding reporting requirements on the Board. These made necessary increasingly detailed research to develop more detailed briefing books, formal reports, and testimony.

Battling the Rising Tide of Inflation

In the 1970s inflation—endemic since 1965—worsened in a series of episodes. For most of the decade, each new inflationary outbreak was met with some combination of policy actions intended to be counterinflationary, but in practice they all proved to be inadequate to the task. Not until the decade's end was a decisive anti-inflationary campaign mounted with the Fed at its head.

After what the Board's *Annual Report* for 1972 called an "unusually favorable" year, in 1973 the economy toppled into the "worst inflation since World War II." Wage and price control authority expired with a valedictory judgment by Chairman Alan Greenspan of the Council of Economic Advisers that the theory that controls may have held inflation down somewhat was unacceptable.

In mid-decade the economy slumped into the steepest and longest recession since the 1930s. Despite a good recovery the *Annual Report* for 1977 reported "no progress on moderating the underlying rate of inflation." In 1978 the Board declared inflation "the nation's most urgent economic concern." In this context the dollar began a decline in 1977 that accelerated in 1978 and became precipitous in October, bringing on a Treasury–Fed program in November to stabilize it. This turned out to be much work and little result. In its July 1979 report to the Congress, the Board said that inflation had "disrupted" economic activity.

On October 6, with the money supply still rising "briskly," as the 1979 *Annual Report* put it, despite restraining actions that had driven interest rates to record levels (including 12 percent at the Fed's discount window), Chairman Volcker announced new open market procedures putting the Board's main emphasis on quantitative control of the money supply by means of undersupplying bank reserves: An about-face from the policy of trying to control money by targeting interest rates.

This sea change in the Fed's monetary policy put the research staff and the small staff specialized in open market operations under great pressure for many months. It required redoubled monitoring, data gathering, analysis, and memo writing to install and learn to operate the new program, and educate others—including the media—in it. This was an intensification of the pressure these staffs, especially, had been under during the decade-long, losing battle against chronically racheting up inflation. The

MIKE PRELL

The world became more complicated in the 1970s. A series of shocks created enormous variability in economic conditions and increased the pace of financial innovation. All of this had to be tracked, analyzed, and forecasted, so our work became more difficult. More sophisticated use of computers helped us meet the needs of the Board, but it also created new demands. In the early 1970s we would work out a thrift industry projection almost literally on the back of an envelope; by the late 1970s we were providing the Board with forecasts of thrift earnings, by institutional size class, under alternative interest rate assumptions. The character of our work changed in other ways, too: briefings and Greenbooks, for instance, became less anecdotal and qualitative and more macro-oriented and quantitative. Our statistical programs had to cope with increasingly complex markets and deteriorating outside data sources. The mounting pressures of required work squeezed the time available for developmental research and for "thinking big thoughts."

switch to quantitative control brought a certain exhilaration, arising from a hope that the new policy could succeed, finally, in getting the best of inflation.

There are no convenient ways of measuring research output, such as may be used for the staff effort in consumer credit protection, regulation and supervision, legal output, and production of the public affairs office (all, of course, at least peripherally involved in the fight on inflation). It is sufficient to say that this monetary challenge, too, was met in the Fed staff tradition of commitment to the task. And when there was time to glance at the newspapers, it was plain to see that the Board's staff was doing the work of the nation's premier economic policymaker. Judging by the fact that throughout the 1970s the Congress continued to heap added responsibilities on the Board, not only the quantity but also the quality of the decade's work was of a high order—another Fed staff tradition.

BOB BLACK IN RICHMOND

A major development in the early 1970s was the introduction of the federal funds rate as our explicit policy instrument. I felt we would have a lot better chance of hitting our targets if we used total bank reserves, and I haven't changed my mind. The *major monetary policy development in the 1970s was the introduction of the money supply as an intermediate policy target.*

Dr. Burns, doughty warrior, met his match in the form of a silvery water carafe in the House Banking Committee's hearing room. Thirsty, he reached for the carafe and tugged at the rubber stopper (never before a problem in his long experience in congressional hearing rooms). But someone with a heavy hand had put this stopper in place. The Chairman pulled and twisted at it. No result. From their perches above him committee members watched fascinated. Likewise the staff and public behind him. The Chairman turned the thing upside down and shook it. Deluge on the table. Unflapped, Dr. Burns mopped up what he could with the napkin from the carafe tray, poured himself a drink from what remained in the carafe, drank and announced he was ready to resume. (No water got on him—what water would have dared?)

Staff Leadership and the Board [EJS]

Throughout the decade, the sheer volume and variety of Board work meant that many members of the staff were important contributors. There were several "leaders of the troops" in each of the major Board policy areas, however, who deserve special mention. In the bank holding company area it was Fred Solomon, Director of the Division of Supervision and Regulation in the early 1970s; Brent Leavitt, Program Director for Banking Structure; Tom O'Connell, General Counsel; and Tynan Smith, Secretary of the Board. In the path-breaking implementation of the Truth in Lending Act, it was Fred Solomon and Griff Garwood, Chief of the Truth in Lending Section of the Division of Supervision and Regulation. In directing research and analysis of economic developments at home and abroad, it was successively Chuck Partee, Lyle Gramley, and Jim Kichline on the domestic side and Bob Solomon, Ralph Bryant, and Ted Truman on the international side. All six of these research directors also were important staff contributors to monetary policymaking, as were Bob Holland and Steve Axilrod on the FOMC staff.

This was the time in which the Board's long reputation for staff quality led to three different staff members being directly elevated to membership on the Board itself. First was Bob Holland in 1973. Shortly before Holland left in 1976, Chuck Partee was named to the Board, and shortly after the end of the decade Lyle Gramley was likewise named to Board membership. All three of these individuals, it should be noted, also spent the early years of their careers at a Federal Reserve Bank.

At various times during the decade three other economists with long Federal Reserve Bank experience—George Mitchell, Dewey Daane, and Phil Coldwell—also served on the Board, and three other Board members who served during the decade—Henry Wallich, Andrew Brimmer, and Paul Volcker—had shorter spans of Reserve Bank experience.

Furthermore, during these demanding years the Board also made increasing use of talented Reserve Bank officers who would join the Board staff for a time in order to help deal with the press of Board business. All told, Federal Reserve talent from throughout the System was marshalled in Washington as never before to carry out the Board's expanded responsibilities. ■

In Conclusion

Throughout the decades, the succession of chairmen who have led the Federal Reserve System has included such long-serving, strong-minded individuals as Marriner Eccles, Bill Martin, Arthur Burns, and Paul Volcker. As is usual and proper, they received the lion's share of the public's attention, acclaim, and criticisms for what the Federal Reserve did or did not do. The staff work chronicled on these pages, however, played an essential part in writing these chapters of Federal Reserve history.

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WORKING AT THE BOARD

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM